

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 IO-10 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 DODE-00

AGR-05 /109 W

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R 131200Z NOV 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 6492

INFO AMEMBASSY BONN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION OECD PARIS

USMISSION EC BRUSSELS

USDEL MTN GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 17464

PASS TREASURY FOR CANNER AND EXIM

E.O.: 11652: GDS

TAGS: EFIN, UK

SUBJECT: UK COST ESCALATION INSURANCE SCHEME

1. BEGIN UNCLASSIFIED: IN PARLIAMENT ON 29 OCTOBER THE SECRETARY OF STATE FOR TRADE WAS ASKED HOW MANY POLICIES HAVE BEEN SIGNED UNDER THE EXPORT CREDITS GUARANTEE DEPARTMENT'S COST ESCALATION INSURANCE SCHEME; AND FOR WHAT AMOUNT. MR. ERIC DEAKINS, UNDERSECRETARY OF STATE FOR TRADE, RESPONDED THAT AS OF THIS TIME "NO GUARANTEES HAVE BEEN ISSUED, BUT THE SCHEME HAS ALREADY ASSISTED IN THE SUCCESSFUL NEGOTIATION OF 140 MILLION POUNDS OF BUSINESS
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AND A LARGE VOLUME OF POTENTIAL BUSINESS IS AT VARIOUS

STAGES OF NEGOTIATION. THE LARGE PROJECT BUSINESS WHICH THE SCHEME IS DESIGNED TO COVER INEVITABLY TAKES CONSIDERABLE TIME TO NEGOTIATE WITH OVERSEAS BUYERS." MR. DEAKINS WAS FURTHER ASKED WHAT IS THE LATEST ESTIMATE OF THE TOTAL ANNUAL COST OF EXPORT CREDIT. HE RESPONDED THAT "THE ESTIMATED COST TO THE GOVERNMENT IN THE FINANCIAL YEAR 1974-75 OF ECGD'S EXPORT REFINANCING AND INTEREST RATE SUPPORT ARRANGEMENTS IS 157 MILLION POUNDS. THIS INCLUDES THE COST OF PROVIDING RE-FINANCE LOANS TO THE BANKS AT THE FIXED EXPORT RATE AND OF INTEREST RATE SUPPLEMENTS MADE ON THE BANKS' NEW REFINANCED FIXED RATE EXPORT LENDING. ECGD'S CREDIT INSURANCE OPERATIONS ARE CONDUCTED ON A COMMERCIAL BASIS AND AT NO NET COST TO PUBLIC FUNDS."

2. IN ADDITION, MR. DEAKINS REPORTED THAT "AS OF END-SEPTEMBER 1975, ECGD'S ESTIMATED LIABILITY UNDER SECTION 1 GUARANTEES (NORMAL COMMERCIAL TRANSACTIONS) STOOD AT 6,919 MILLION POUNDS AND LIABILITY UNDER SECTION 2 GUARANTEES (MILITARY SALES AND OTHER TRANSACTIONS CONSIDERED TO BE IN THE NATIONAL INTEREST, GENERALLY HIGH RISK LOANS INVOLVING POLITICAL CONSIDERATIONS) STOOD AT 2,710 MILLION POUNDS. THUS THE ESTIMATED TOTAL LIABILITIES IN RESPECT TO THE GUARANTEES GIVEN UNDER THE 1975 EXPORT GUARANTEES ACT TOTALLED 9,629 MILLION POUNDS." END UNCLASSIFIED

3. BEGIN CONFIDENTIAL. ECGD OFFICIAL FURTHER ELABORATED ON THE FIGURES STATED ABOVE. AS OF NOVEMBER 11, 5 CONTRACTS HAVE BEEN CONCLUDED FOR WHICH ECGD HAS AGREED TO PROVIDE COST ESCALATION INSURANCE COVERAGE. THE AGGREGATE VALUE OF THE CONTRACTS IS 140 MILLION POUNDS. THE UNDERSECRETARY OF STATE FOR TRADE'S STATEMENT CITED IN PARAGRAPH 1 ABOVE THAT NO GUARANTEES HAVE YET BEEN ISSUED IS IN PART TRUE. WHILE ECGD HAS GIVEN APPROVAL FOR COST ESCALATION COVERAGE ON THE 5 ABOVE-MENTIONED CONTRACTS, NO ACTUAL POLICIES HAVE BEEN ISSUED. HOWEVER, THIS IS DUE TO THE FACT THAT TO DATE NO POLICY FORMS HAVE BEEN PRINTED BUT IN ACTUALITY THE CONTRACTS HAVE BEEN WRITTEN AND INCLUDE THE COVERAGE.

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TO SECSTATE WASHDC 6493

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AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

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4. IN ADDITIMN TO THE 5 CONTRACTS WHICH HAVE BEEN GIVEN FULL APPROVAL FOR COST ESCALATION COVERAGE, THERE ARE AN ADDITIONAL 54 CONTRACTS WHICH HAVE RECEIVED INITIAL APPROVAL BY ECGD. THE AGGREGATE VALUE OF THESE CONTRACTS AMOUNTS TO 1,056 MILLION POUNDS. OFFICIAL INDICATED THAT IT APPEARS LIKELY THAT MOST, IF NOT ALL, OF THESE WILL BE GIVEN FINAL APPROVAL IN THE NEAR FUTURE.

5. COMMENT: IN BONN 17684, REFERENCE WAS MADE TO THE INTRANSIGENCE OF THE BRITISH IN DEFENDING THEIR INFLATION INSURANCE SCHEME. GIVEN THE CURRENT PRESSURES FROM INDUSTRY TO EXPAND THE SCHEME TO ALLOW FOR EXPORT EXPANSION AND STRONG PRESSURES FROM THE LABOUR UNIONS TO INTRODUCE

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IMPORT CONTROL MEASURES, IT IS UNLIKELY THAT THE GOVERN-

MENT WOULD CONSIDER ELIMINATION OF THE COST INFLATION
COVERAGE SCHEME IN THE NEAR FUTURE. THE POLITICAL COST
OF ELIMINATING THE SCHEME WOULD BE HIGH. IT IS OUR JUDG-
MENT THAT EVEN IF BRITAIN'S TRADING COMPETITORS ELIMINAT-
ED THEIR INFLATION COVERAGE SCHEMES, IT IS UNLIKELY THAT
THE UK WOULD ABOLISH ITS PROGRAMS AS LONG AS ITS RELA-
TIVE RATE OF INFLATION REMAINS HIGH. WHILE MANY INDUS-
TRIES HAVE COMPLAINED THAT THE GUIDELINES FOR COST IN-
FLATION COVERAGE ARE TOO RIGID, THE NUMBER OF "LIVE AP-
PLICATIONS" FMR THE COVERAGE APPEARS TO INDICATE THE
RAPIDITY WITH WHICH INDUSTRY HAS ACCEPTED THE SCHEME
EVEN WITH THEIR VOICED CRITICISM OF ITS LIMITATIONS.

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